

Memorandum

To: VICTORIA ANDERSON
Contract Officer
Division of Procurement & Contracts

Date: February 6, 2008
File No.: P1420-0945
Contract No.: 06A1230

From: DEPARTMENT OF TRANSPORTATION
Audits and Investigations

Subject: Post Award Audit - University Enterprises Inc.

We have audited University Enterprises, Inc.'s (Contractor) assertions pertaining to draft Agreement No. 06A1230 between the Department of Transportation (Department) and the Contractor. Specifically, the Contractor's management asserts that the proposed costs for this agreement are reasonable in relation to actual historical costs and estimating procedures and that the Contractor maintains an effective financial management system to meet the criteria set forth in this agreement, Office of Management Budget (OMB) Circular A-21 and OMB Circular A-110. We also reviewed the agreement to assess whether the required fiscal provisions were included.

The Contractor's management is responsible for the fair presentation of the proposed costs, ensuring compliance with contract provisions and state and federal regulations, and that the financial management system maintained by the Contractor is adequate to accumulate and segregate reasonable, allocable, and allowable costs. Our responsibility is to express an opinion on the proposed costs, the financial management system and contract based on our audit.

Our post award audit was conducted in accordance with the Performance Standards set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. A post award audit is less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the Contractor. Therefore, we did not audit and are not expressing an opinion on the Contractor's financial statements.

The standards require that we plan and perform the audit to obtain a reasonable assurance about whether the data and records reviewed are free of material misstatement. It also includes reviewing documentary support for the amounts and disclosures in the proposed costs, assessing the estimates made by the Contractor's management, as well as evaluating the overall presentation.

Under the terms of the executed agreement, the Contractor shall conduct research identified in its technical proposal titled Phase III Cultural Resource Studies through the Archaeological Research Center (ARC) at the California State University, Sacramento

(CSUS). The total amount of this agreement shall not exceed \$1,600,000. Reimbursement is to be made at actual cost.

The scope of the post award audit was limited to financial compliance activities relative to the above referenced agreement. The post award audit consisted of a review, on a test basis, of evidence supporting the proposed labor rates, and other direct costs. We also assessed the Contractor's understanding and compliance with OMB Circular A-21 and OMB Circular A-110 relative to the proposed costs and internal control. This engagement did not include fieldwork, however, we reviewed the agreement, and reviewed the work of other auditors to obtain an understanding of internal control. We reviewed the Contractor's accounting system and proposed costs as of January 24, 2008. Accounting system and cost proposal changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We did not audit or examine the proposed indirect rates since a post award audit is less in scope than an incurred cost audit or examination. We reviewed the proposed indirect rates for the purpose of accepting contract progress billings. We believe our audit provides a reasonable basis for our opinion.

Due to the inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any audit of the financial management system to future periods are subject to the risk that the financial management system may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

POST AWARD AUDIT RESULTS

In our opinion, except as described below, no material deficiencies were noted in the Contractor's assertions that the costs proposed relative to the above agreement, are reasonable in relation to actual historical costs and estimating procedures and that the Contractor maintains an effective financial system to meet the criteria set forth in the agreement and OMB Circular A-21, and OMB Circular A-110. Also, our review noted no material fiscal provisions excluded from the executed agreement. However, the executed agreement does not contain the applicable cost principles as noted below.

Finding No.1 - Applicable Cost Principles

The executed agreement cites the applicable cost principles as OMB Circular A-122, Cost Principles for Non-Profit Organizations. Although the Contractor is a non-profit entity, it is also an auxiliary organization of CSUS. Based on discussions with the Contractor, the Contractor's cognizant federal agency representative and independent auditor, we determined OMB Circular A-21, Cost Principles for Educational Institutions, is more appropriate than OMB Circular A-122. The Contractor and CSUS

share the same indirect cost rate agreement with the cognizant federal agency applying OMB Circular A-21 cost principles, treating both entities as one cost structure.

Recommendation: The contract manager should amend the agreement and change the applicable cost principles from OMB Circular A-122, Cost Principles for Non-Profit Organizations to OMB A-21, Cost Principles for Educational Institutions.

Finding No. 2 - Cost Proposal Detail

The executed agreement does not contain detail of direct labor costs, indirect costs, and other direct costs. Supplemental cost proposal information (Attachment 1, 2007-08 ARC Billing Rates) was provided by the Contractor, however the supplemental cost proposal information is not included as part of the executed agreement.

Recommendation: The contract manager should amend the agreement to include the supplemental cost proposal information identifying the proposed direct labor costs, indirect costs, and other direct costs that we relied on in performing the audit, including identified revisions below.

Finding No. 3 - Project Coordination /Administration Costs

The supplemental cost proposal information (Attachment 1, 2007-08 ARC Billing Rates) identifies a portion of the billing rates for project coordination/administration costs (\$2.87 per hour) which cannot be directly identified to a specific project, as direct costs and is allocated based on the ARC's previous year total billable hours.

OMB Circular A-21 F.6.b.(2) states, "The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity." This requires administrative staff to record time and effort by specific project in order to include as direct cost. Therefore, an allocation of project coordination/administration costs does not meet this criteria.

The project coordination/administration portion of the billing rates will reimburse the Contractor for costs that would already be reimbursed through the indirect cost rate. The practice of billing administrative cost as direct cost is not consistent with OMB Circular A-21 F.6.b.(2).

Recommendation: The contract manager should amend the agreement to exclude the allocated project coordination/administration portion of the billing rates from

direct costs as identified in Attachment 2.

Finding No. 4 - Supplies Costs

The supplemental cost proposal information (Attachment 1, 2007-08 ARC Billing Rates) contains a portion of the billing rates for supplies (\$0.99 per hour) which cannot be directly identified to a specific project as direct costs and is allocated based on the ARC's previous year total billable hours. The Contractor identified the supplies portion of the billing rates as for office supplies, field supplies, and laboratory supplies.

Based on OMB Circular A-21 F.6.b.(1) and F.6.b.(3), field supplies and laboratory supplies should be treated differently than office supplies.

OMB Circular A-21 F.6.b.(1) indicates that supplies, such as laboratory supplies and field supplies, can be directly charged if they can be identified to a particular cost objective. OMB Circular A-21 C.4.a. defines a cost objective as "a specific function, project, sponsored agreement, department, or the like." In this case, the laboratory supplies and field supplies cannot be identified to a specific project. Since the laboratory supplies and field supplies cannot be identified to a specific project, the related supplies portion of the billing rates should not be included as direct cost.

OMB Circular A-21 F.6.b.(3) states that office supplies should normally be treated as indirect cost. Since office supplies should be normally treated as indirect cost, and the office supplies of the cost proposal cannot be directly identified to a specific project, the entire supplies portion of the billing rates should not be treated as direct cost. The supplies portion of the billing rate will reimburse the Contractor for office supplies costs that would already be reimbursed through the indirect cost rate. The practice of billing office supplies cost as direct cost is not consistent with OMB Circular A-21 F.6.b.(3).

Recommendation: The contract manager should amend the agreement to exclude the allocated supplies portion of the billing rates from direct costs as identified in Attachment 2.

Finding No. 5 - Estimated Principal Investigator Total Rates

The cost proposal contains estimated total rates for principal investigators. During the audit, the Contractor submitted supplemental cost proposal information with more current information containing actual rates for the principal investigators, which are lower than the original estimated cost proposal amounts. The difference between estimated total billing rates and actual total billing rates for the principal investigators is identified below:

<u>Object Code</u>	<u>Principal Investigator</u>	<u>Estimated Rate</u>	<u>Actual Rate</u>	<u>Difference</u>
8001	Basgall	\$106.29	\$99.94	- \$6.35
8062	Delacorte	\$80.18	\$75.74	- \$4.74

Recommendation: Since the method of payment for this agreement is based on actual costs, the contract manager should amend the agreement to reduce the total billing rates for principal investigators by the difference between the estimated rates and actual rates for principal investigators. This revision is included in Attachment 2.

The post award audit results were discussed with Susan Flynn, Senior Contract Development Officer, University Enterprises, Inc. on January 24, 2008 and Diana Gong, Contract Manager, on January 29, 2008. Susan Flynn agrees that the applicable cost principles should be OMB Circular A-21, but disagrees with the disallowance of the supplies and project coordination/administration portions of the billing rates. Diana Gong concurs with the post award audit results.

This report is intended solely for the information of the Department management, the California Transportation Commission, and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited.

Please forward a copy of the amended executed agreement to our office. If you have any questions, please contact Tim Pasco at (916) 323-7881 or Felix Li, Audit Supervisor, at (916) 323-7897.

ORIGINAL SIGNED BY:

TIM PASCO
Auditor

Approved:

ORIGINAL SIGNED BY:

CARLOS M. AGUIÑA
Audit Manager
Audits and Investigations

cc: D Gong, Contract Manager

ATTACHMENT 1

2007-08 ARC Billing Rates

Object	Description	Regular Rate	Fringe Rate	Hrly Fringe	Vac/Sick/Hol	Supplies	Project Coord/Admin	Billing Rates
		HR Rate	Rate					
8001	Principal Investigator I-Basgall	\$69.07	0.3910	\$27.01		\$0.99	\$2.87	\$99.94
8002	Project Manager	\$20.19	0.0994	\$2.01		\$0.99	\$2.87	\$26.06
8003	Field Director/Sr. Lab Director	\$21.23	0.0994	\$2.11		\$0.99	\$2.87	\$27.20
8004	Staff Archaeologist-L. Glover *	\$26.90	0.2531	\$6.81	\$10.67	\$0.99	\$2.87	\$48.24
8005	Crew Chief	\$20.19	0.0994	\$2.01		\$0.99	\$2.87	\$26.06
8006	Field Personnel I	\$16.56	0.0994	\$1.65		\$0.99	\$2.87	\$22.07
8007	Field Personnel II	\$13.40	0.0994	\$1.34		\$0.99	\$2.87	\$18.66
8008	Laboratory Director	\$20.19	0.0994	\$2.01		\$0.99	\$2.87	\$26.06
8009	Staff Archaeologist-Bethard *	\$25.34	0.2589	\$6.56	\$10.10	\$0.99	\$2.87	\$45.86
8010	Lab Personnel I	\$15.53	0.0994	\$1.54		\$0.99	\$2.87	\$20.93
8011	Lab Personnel II	\$13.46	0.0994	\$1.34		\$0.99	\$2.87	\$18.66
8012	Graphic Illustrator I	\$18.12	0.0994	\$1.80		\$0.99	\$2.87	\$23.78
8013	Graphic Illustrator II	\$13.40	0.0994	\$1.34		\$0.99	\$2.87	\$18.66
8015	Staff Archaeologist-Hansen *	\$22.77	0.4896	\$11.15	\$10.73	\$0.99	\$2.87	\$48.51
8057	Lithics/Groundstone I	\$18.12	0.0994	\$1.80		\$0.99	\$2.87	\$23.78
8058	Floral/Faunal I	\$18.12	0.0994	\$1.80		\$0.99	\$2.87	\$23.78
8059	Lithics/Groundstone II	\$16.31	0.0994	\$1.62		\$0.99	\$2.87	\$21.79
8060	Floral/Faunal II	\$16.31	0.0994	\$1.62		\$0.99	\$2.87	\$21.79
8061	Collections Manager	\$65.36	0.0981	\$6.41		\$0.00	\$0.00	\$71.79
8062	Principal Investigator I-Delacorte	\$51.46	0.3910	\$20.12		\$0.99	\$2.87	\$75.44
8064	General Analyst	\$20.19	0.0994	\$2.01		\$0.99	\$2.87	\$26.06
8074	Paleobotanist-Pierce	\$24.19	0.0994	\$2.40		\$0.99	\$2.87	\$30.45
8076	Intern	\$11.90	0.0994	\$1.18		\$0.99	\$2.87	\$16.94
8077	Staff Archaeologist-D. Glover *	\$24.84	0.2609	\$6.48	\$9.50	\$0.99	\$2.87	\$44.68
8078	GPS/GIS Coordinator *	\$15.12	0.0994	\$1.80		\$0.99	\$2.87	\$23.78
8079	Lithic Specialist-Jurich	\$24.19	0.0994	\$2.40		\$0.99	\$2.87	\$30.45
8081	Staff Archaeologist-W. Norton *	\$23.33	0.3084	\$7.19	\$8.28	\$0.99	\$2.87	\$42.66

* Bolded names are fully benefitted employees.

1. Fringe Rate: this rate includes mandatory payroll contributions (Social Security 6.20%, Medicare 1.45%, Unemployment SUI 1.4%, and Workers Comp 0.686%). Also includes health/dental, retirement and life insurance for benefitted employees and Principal Investigators.
2. Vac/Sick/Hol: vacation, sick and holiday accrual amount per hour for benefitted employees (calculated annually).
3. and 4. Supplies and Project Coordination/Admin: these costs cannot be directly identified to a specific project and are included in each employee's hourly billing rate in order to cover the Archaeological Research Center's (ARC) costs of conducting business. The method to develop the rates are approved through the Federal Office of Management and Budget Circular A-21 (OMB A21). The analysis is done annually and includes downloading and evaluating each cost for the ARC.

of Billable Hours in 2005-2007: 20,680.75

Supplies: Total supplies for 2005-2007: \$20,474.24 divided by: 20,680.75 = \$0.99

Project Coord/Admin: J. Allison * Reg rate: \$22.17; Fringe rate: 0.4 = 17; Hourly fringe: \$10.46; Accrual: \$8.87 Annual amount: \$59,382.21

\$59,382.21 divided by 20,680.75 = \$2.87

Principal Investigators: Basgall and Delacorte are CSUS faculty (see attached Release Time Computation Sheet for each). Their hourly rates are calculated as follows: Monthly salary multiplied by 12 months, divided by 170 days (the average # of working days per year for faculty), divided by 8 hours per day. Basgall: \$7,828 x 12 + 170 ÷ 8 = \$69.07/hr. Delacorte: \$5,932 x 12 + 170 ÷ 8 = \$51.46/hr.

ATTACHMENT 2

Revised Rates Excluding Supplies and Project Coordination/ Administration and Including Actual Rates for Principal Investigators

Object Code	Description	1 Salary Hourly Rate	2 Fringe Benefit Hourly Rate	3 Vacation, Holiday, Sick	4 Revised Total Billing Rate	5 Original Total Billing Rate	6 Difference
8001	Principal Investigator I. Basgall	\$69.07	\$27.01		\$96.08	\$106.29	-\$10.21 *
8002	Project Manager	\$20.19	\$2.01		\$22.20	\$26.06	-\$3.86
8003	Field Director/Senior Lab Director	\$21.23	\$2.11		\$23.34	\$27.20	-\$3.86
8004	Staff Archaeologist L. Glover	\$26.90	\$6.81	\$10.67	\$44.38	\$48.24	-\$3.86
8005	Crew Chief	\$20.19	\$2.01		\$22.20	\$26.06	-\$3.86
8006	Field Personnel I	\$16.56	\$1.65		\$18.21	\$22.07	-\$3.86
8007	Field Personnel II	\$13.46	\$1.34		\$14.80	\$18.66	-\$3.86
8008	Laboratory Director	\$20.19	\$2.01		\$22.20	\$26.06	-\$3.86
8009	Staff Archaeologist Bethard	\$25.34	\$6.56	\$10.10	\$42.00	\$45.87	-\$3.87
8010	Lab Personnel I	\$15.53	\$1.54		\$17.07	\$20.93	-\$3.86
8011	Lab Personnel II	\$13.46	\$1.34		\$14.80	\$18.66	-\$3.86
8012	Graphic Illustrator I	\$18.12	\$1.80		\$19.92	\$23.78	-\$3.86
8013	Graphic Illustrator II	\$13.46	\$1.34		\$14.80	\$18.66	-\$3.86
8015	Staff Archaeologist Hansen	\$22.77	\$11.15	\$10.73	\$44.65	\$48.51	-\$3.86
8057	Lithics/Groundstone I	\$18.12	\$1.80		\$19.92	\$23.78	-\$3.86
8058	Floral/Faunal I	\$18.12	\$1.80		\$19.92	\$23.78	-\$3.86
8059	Lithics/Groundstone II	\$16.31	\$1.62		\$17.93	\$21.79	-\$3.86
8060	Floral/Faunal II	\$16.31	\$1.62		\$17.93	\$21.79	-\$3.86
8061	Collections Manager	\$65.38	\$6.41		\$71.79	\$71.79	\$0.00
8062	Principal Investigator I. Delacorte	\$51.46	\$20.12		\$71.58	\$80.18	-\$8.60 *
8064	General Analyst/Author	\$20.19	\$2.01		\$22.20	\$26.06	-\$3.86
8074	Paleoethnobotanist Pierce	\$24.19	\$2.40		\$26.59	\$30.45	-\$3.86
8076	Intern	\$11.90	\$1.18		\$13.08	\$16.94	-\$3.86
8077	Staff Archaeologist D. Glover	\$24.84	\$6.48	\$9.50	\$40.82	\$44.68	-\$3.86
8078	GPS/GIS Coordinator	\$18.12	\$1.80		\$19.92	\$23.78	-\$3.86
8079	Lithic Specialist D. Jurich	\$24.19	\$2.40		\$26.59	\$30.45	-\$3.86
8081	Staff Archaeologist W. Norton	\$23.33	\$7.19	\$8.28	\$38.80	\$42.66	-\$3.86

* The original billing rates for the Principal Investigator positions were estimated at the time of the cost proposal. Lower actual rates for the Principal Investigator positions were later provided in supplemental cost proposal detail.